

*Poor set of numbers, overall slowdown in real estate sector have started taking its toll even on market leader Oberoi Realty, Maintain Hold with a revised target price of Rs 551*

Current	Previous
CMP: Rs 513	
Rating: Hold	Rating: Hold
Target: Rs 551	Target: Rs 577

(NR-Not Rated)

Stock Info	
INDEX	
BSE	533273
NSE	OBEROIRLTY
Bloomberg	OBER IN
Reuters	OEBO.NS
Sector	Real Estate
Face Value (Rs)	10
Equity Capital (Rs Mn)	3636
Market Cap (Rs Mn)	186,527
52w H/L (Rs)	642 / 366
Avg Weekly Vol (BSE+NSE)	2,717,765

Shareholding Pattern	%
<b>(As on Sept, 2019)</b>	
Promoters	67.7
Public & Others	32.3

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
OBEROI REALTY	-6.7	-3.8	35.4
SENSEX	2.4	0.8	14.1

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

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**Oberoi Realty (ORL) came out with weak set of numbers which were below our estimates. Revenue for the quarter fell 17% YoY to Rs 4915 mn against our estimate of Rs 6530 mn, EBITDA fell 28.1% YoY to Rs 2129 mn, below our estimate of Rs 2743 mn, while PAT declined 35.4% YoY to Rs 1381 mn, below our estimate of Rs 2285 mn. EBITDA margin stood at 43.3% which was slightly above our estimate of 42%, a decline of 665bps YoY, though on QoQ basis margin improved by 432bps. Despite weak results, we keep our faith intact on ORL due to its strong brand name and a dominant position in each of its micro market, which gives ORL enough bandwidth to tide over the current market slowdown with a strong visibility of future cash flows. We maintain our Hold rating with a revised target price of Rs 551.**

**Q2FY20 Highlights**

- In Q2FY20 ORL reported 17% YoY decline in revenue to Rs 4915 mn against Rs 5921 mn in Q2FY19. While sequentially revenue witnessed 18.5% QoQ de-growth against Rs 6033 mn in Q1FY20.
- EBITDA for Q2FY20 saw de-growth of 28.1% YoY to Rs 2129 mn against Rs 2958 mn in Q2FY19. While on sequential basis EBITDA declined 9.5% QoQ against Rs 2352 mn in Q1FY20. Due to muted margin of residential segment blended EBITDA margin contracted by 665 bps YoY to 43.3% in Q2FY20 against 50% in Q2FY19. Though on QoQ basis margin expanded by 432 bps against 39% reported in Q1FY20.
- ORL adopted new accounting policy from last quarter (Q1FY20) onwards, which has inflated interest costs 321% YoY to Rs 246mn against Rs 58 mn in Q2FY19. As per new practice, interest cost is now charged through P&L account post launch of a project vis-à-vis earlier practice of including it in WIP and then routing through P&L as per percentage completion method. Due to subdued margin and high interest cost, PAT fell 35.4% YoY to Rs 1381 mn against Rs 2138 mn in Q2FY19. While on QoQ basis PAT declined 9.2%.

**Valuations**

At CMP of Rs 513, ORL is trading at FY20E and FY21E, P/E multiples of 20x and 16.8x respectively. After factoring in muted Q2FY20 results, we have kept our FY20E/FY21E estimate intact as we believe H2 will be better for ORL, however reduce our premium to NAV from 10% to 5%, which yields a target price of Rs 551 per share. **We maintain our Hold rating on the stock with a DCF based target price of Rs 551, which gives an upside of 7.4%.**

**Financial Performance**

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY18	12,654	6,753	4,588	13.5	53.4	7.5	38.0
FY19	25,825	11,554	8,169	22.5	44.7	10.2	22.8
FY20E	30,371	13,002	9,314	25.6	42.8	11.0	20.0
FY21E	35,838	15,466	11,122	30.6	43.2	12.5	16.8

Source: Company, Arihant Research

## Q2FY20 and H1FY20 Financial Performance

Rs Mn (Consolidated)	Q2FY20	Q1FY20	Q2FY19	Q-o-Q	Y-o-Y	H1FY20	H1FY19	Y-o-Y
<b>Net Revenue</b>	<b>4915</b>	<b>6033</b>	<b>5921</b>	<b>-18.5%</b>	<b>-17.0%</b>	<b>10947</b>	<b>14804</b>	<b>-26.1%</b>
Operating Cost	2425	3207	2574	-24.4%	-5.8%	5632	6329	-11.0%
Employee cost	171	175	193	-2.3%	-11.3%	346	379	-8.8%
Other Expenses	190	299	196	-36.3%	-2.8%	489	520	-6.0%
<b>EBITDA</b>	<b>2129</b>	<b>2352</b>	<b>2958</b>	<b>-9.5%</b>	<b>-28.1%</b>	<b>4481</b>	<b>7576</b>	<b>-40.9%</b>
<b>EBITDA margin %</b>	<b>43.3%</b>	<b>39.0%</b>	<b>50.0%</b>	<b>+432bps</b>	<b>-665bps</b>	<b>40.9%</b>	<b>51.2%</b>	<b>-1024bps</b>
Other Income	136	149	277	-8.1%	-50.7%	285	348	-18.1%
Depreciation	113	111	110	2.0%	3.0%	224	216	3.8%
<b>EBIT</b>	<b>2152</b>	<b>2390</b>	<b>3125</b>	<b>-10.0%</b>	<b>-31.1%</b>	<b>4541.5</b>	<b>7707.5</b>	<b>-41.1%</b>
Finance cost	246	239	58	2.8%	321.1%	484	108	350.6%
Exceptional Item	0	0	0			0	0	-
<b>PBT</b>	<b>1906</b>	<b>2151</b>	<b>3067</b>	<b>-11.4%</b>	<b>-37.8%</b>	<b>4057</b>	<b>7600</b>	<b>-46.6%</b>
Tax Expense	540	643	940	-15.9%	-42.6%	1183	2390	-50.5%
Effective tax rate %	28.3%	29.9%	30.7%	-154bps	-233bps	29.1%	31.4%	-230bps
Reported Net Profit	1366	1508	2127	-9.4%	-35.8%	2875	5210	-44.8%
MI & Associates	15	12	12	16.9%	23.9%	27	23	19.0%
<b>Consolidated PAT</b>	<b>1381</b>	<b>1521</b>	<b>2138</b>	<b>-9.2%</b>	<b>-35.4%</b>	<b>2901</b>	<b>5233</b>	<b>-44.6%</b>
<b>PAT Margin %</b>	<b>28.1%</b>	<b>25.2%</b>	<b>36.1%</b>	<b>+289bps</b>	<b>-802bps</b>	<b>26.5%</b>	<b>35.3%</b>	<b>-884bps</b>
<b>EPS (Rs)</b>	<b>3.8</b>	<b>4.2</b>	<b>5.9</b>	<b>-9.2%</b>	<b>-35.4%</b>	<b>8.0</b>	<b>14.4</b>	<b>-44.6%</b>

Source: Company, Arianth Research

### Post Result Conference Call Highlights

- The company got its Thane land at an attractive price of Rs 150mn/acre compared to industry rate of similar land parcel at Rs 350mn/acre, as got a good deal from Raymond for its Thane land. In its Thane project it will get 80IB benefit, but will take a call whether to take 80IB benefit or to go for benefit of lower corporate tax rate in subsequent quarters.
- ORL management is not looking to invest in any brownfield project as of now due to overall stress in the real estate market. The company is mostly looking into greenfield projects and projects which are available at attractive rates, like its Thane land deal, which they got cheaper compared to industry standard. Going forward ORL is looking to invest in more such projects, taking benefit of the overall liquidity crunch in the system to get a good deal.
- For its Worli mall project till now 25% threshold of revenue recognition has still not been achieved, hence they have not recognised any revenue in this quarter from the Worli mall project. The company has approval of 75 floors in its hand, but got clearance till 65 floor (for its back tower). Hence the company will wait for one more quarter to see if they can build more than 65 floors, then will take a call on revenue recognition in subsequent quarters for the Worli mall project. The company expects its Worli Mall project to get completed by FY21.
- For its Three Sixty West project, ORL has already applied for OC, and hoping to get it in another 3-4 months. The company is seeing lot of traction in its 360 West project after applying for OC and have witnessed increased footfalls and enquiry also.
- In its Mulund project almost 70% of the inventory is currently unsold, due to overall slowdown in demand in the real estate sector. As a result ORL is evaluating the current market condition, and will take a call on whether to initiate any deferred payment scheme like it did in its Goregaon project to clear its unsold inventory.

## Consolidated Financials

## Income Statement (Rs Mn)

Year End-March	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	12,654	25,825	30,371	35,838
<i>Change (%)</i>	13.6%	104.1%	17.6%	18.0%
Operating Costs	4,679	12,472	15,034	17,704
Employee costs	672	734	911	1,075
Other expenses	551	1,066	1,425	1,593
<b>Total Expenses</b>	<b>5,901</b>	<b>14,271</b>	<b>17,369</b>	<b>20,372</b>
<b>EBITDA</b>	<b>6,753</b>	<b>11,554</b>	<b>13,002</b>	<b>15,466</b>
Other Income	266	788	911	1,075
Depreciation	491	440	456	473
Interest	69	194	152	179
<b>PBT</b>	<b>6,459</b>	<b>11,707</b>	<b>13,305</b>	<b>15,889</b>
Extra-ordinary	0	0	0	0
<b>PBT after ext-ord.</b>	<b>6,459</b>	<b>11,707</b>	<b>13,305</b>	<b>15,889</b>
Tax	1,907	3,607	3,992	4,767
<i>Rate (%)</i>	29.5%	30.8%	30.0%	30.0%
<b>PAT</b>	<b>4,552</b>	<b>8,100</b>	<b>9,314</b>	<b>11,122</b>
MI & Associates	36	69	0	0
<b>Consolidated PAT</b>	<b>4,588</b>	<b>8,169</b>	<b>9,314</b>	<b>11,122</b>
<i>Change (%)</i>	21.2%	78.1%	14.0%	19.4%

Source: Company, Arianth Research

## Balance Sheet (Rs Mn)

Year End-March	FY18	FY19	FY20E	FY21E
<b>Sources of Funds</b>				
Share Capital	3,396	3,636	3,636	3,636
Reserves & Surplus	57,528	76,656	81,033	85,343
<b>Net Worth</b>	<b>60,924</b>	<b>80,292</b>	<b>84,669</b>	<b>88,979</b>
<b>Loan Funds</b>	<b>9,445</b>	<b>8,361</b>	<b>7,361</b>	<b>6,361</b>
Deferred Tax & Other Liabilities	553	618	618	618
<b>Capital Employed</b>	<b>70,922</b>	<b>89,270</b>	<b>92,649</b>	<b>95,957</b>
<b>Application of Funds</b>				
Gross Block	11,209	12,522	13,022	13,522
Less: Depreciation	1,446	1,886	2,342	2,815
Net Block	9,763	10,636	10,680	10,707
CWIP	1,126	1,261	1,261	1,261
Other Non-Current Assets	1,462	2,215	2,215	2,215
Deferred Tax Assets	1,458	1,348	1,348	1,348
<b>Net Fixed Assets</b>	<b>13,809</b>	<b>15,459</b>	<b>15,503</b>	<b>15,530</b>
<b>Investments</b>	<b>24,242</b>	<b>29,378</b>	<b>29,378</b>	<b>29,378</b>
Debtors	1,813	1,094	832	982
Inventories	42,467	41,655	24,962	29,456
Cash & Bank Balance	1,167	4,253	9,387	8,776
Loans & Advances & Other CA	18,749	19,467	37,575	41,320
<b>Total Current Assets</b>	<b>64,197</b>	<b>66,469</b>	<b>72,757</b>	<b>80,534</b>
Current Liabilities	31,304	22,007	24,962	29,456
Provisions	21	28	28	28
<b>Net Current Assets</b>	<b>32,871</b>	<b>44,434</b>	<b>47,767</b>	<b>51,050</b>
<b>Total Assets</b>	<b>70,922</b>	<b>89,270</b>	<b>92,647</b>	<b>95,957</b>

Source: Company, Arianth Research

**Cash Flow Statement (Rs Mn)**

Year End-March	FY18	FY19	FY20E	FY21E
<b>PBT</b>	<b>6,459</b>	<b>11,707</b>	<b>13,305</b>	<b>15,889</b>
Depreciation	491	440	456	473
Interest & Others	-161	-525	-759	-896
Cash Flow before WC changes	6,789	11,623	13,002	15,466
<b>(Inc)/dec in Working Capital</b>	<b>-3,914</b>	<b>-16,019</b>	<b>-6,422</b>	<b>-13,562</b>
Operating CF after WC changes	2,875	-4,396	6,580	1,904
Less: Taxes	-1,907	-3,607	-3,992	-4,767
<b>Operating Cash Flow</b>	<b>968</b>	<b>-8,003</b>	<b>2,589</b>	<b>-2,863</b>
(Inc)/dec in F.A + CWIP	-826	-1,439	-500	-500
(Pur)/sale of Investment	-6,170	-5,779	0	0
<b>Cash Flow from Investing</b>	<b>-6,997</b>	<b>-7,219</b>	<b>-500</b>	<b>-500</b>
<b>Free Cash Flow (FCF)</b>	<b>142</b>	<b>-9,443</b>	<b>2,089</b>	<b>-3,363</b>
Loan Raised/(Repaid)	759	-1,084	-1,000	-1,000
Equity Raised	1	240	0	0
Interest & Others	59	553	828	896
Dividend	-817	-727	-1,091	-1,454
<b>Cash Flow from Financing Activities</b>	<b>3,738</b>	<b>18,307</b>	<b>3,046</b>	<b>2,751</b>
<b>Net Inc/(Dec) in Cash</b>	<b>-2,291</b>	<b>3,086</b>	<b>5,134</b>	<b>-612</b>
Opening Balance of Cash	3,458	1,167	4,253	9,387
Closing Balance of Cash	1,167	4,253	9,387	8,776

Source: Company, Aриhant Research

**Key Ratios**

Year End-March	FY18	FY19	FY20E	FY21E
<b>Per Share (Rs)</b>				
EPS	13.5	22.5	25.6	30.6
CEPS	15.0	23.7	26.9	31.9
BVPS	179.4	220.8	232.9	244.7
DPS	2.4	2.0	3.0	4.0
Payout (%)	17.8%	8.9%	11.7%	13.1%
<b>Valuation (x)</b>				
P/E	38.0	22.8	20.0	16.8
P/CEPS	34.3	21.7	19.1	16.1
P/BV	2.9	2.3	2.2	2.1
EV/EBITDA	27.0	16.5	14.2	11.9
Dividend Yield (%)	0.5%	0.4%	0.6%	0.8%
<b>Return Ratio (%)</b>				
EBIDTA Margin	53.4%	44.7%	42.8%	43.2%
PAT Margin	36.3%	31.6%	30.7%	31.0%
ROE	7.5%	10.2%	11.0%	12.5%
ROCE	8.8%	12.4%	13.5%	15.6%
<b>Leverage Ratio (%)</b>				
Total D/E	0.2	0.1	0.1	0.1
Net D/E	0.1	0.1	0.0	0.0
<b>Turnover Ratios</b>				
Asset Turnover (x)	0.2	0.3	0.3	0.4
Inventory Days	1225	589	300	300
Receivable Days	52	15	10	10
Payable days	904	311	300	300

Source: Company, Aриhant Research

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**Stock Rating Scale****Absolute Return**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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